REDUCING GRADES OF THE GENERAL SCHEDULE WORK FORCE

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NOTE

Unless otherwise specified, all dates referred to in this paper are fiscal years.

PREFACE

In its recent report, the President's Private Sector Survey on Cost Control found federal classification efforts deficient and the grades of many federal jobs too high. In response, the Administration plans to reduce the number of federal middle-management positions, thus lowering the average grade of the work force. At the request of the Chairman of the Senate Appropriations Subcommittee on Treasury, Postal Service, and General Government, the Congressional Budget Office has analyzed the grade structure of the work force and the extent of misgrading. This report, which examines the budgetary impacts of various proposals to reduce grades, refines and expands on analysis contained in two earlier CBO reports: Analysis of the Grace Commission's Major Proposals for Cost Control (February 1984); and Reducing the Deficit: Spending and Revenue Options (February 1984). In keeping with CBO's mandate to provide objective and impartial analysis, no recommendations are made.

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SUMMARY

The federal government assigns most of its white-collar jobs to one of the 18 pay grades of the General Schedule (GS)--currently covering some 1.4 million federal workers--by means of a decentralized classification system that compares duties and responsibilities of positions to job standards prepared by the Office of Personnnel Management (OPM). This practice is predicated on the assumption that an employee's pay level should reflect primarily the duties of the job held rather than the qualifications he or she possesses. Effective job classification helps the government determine the relative worth of the vast number of jobs it encompasses. This, along with other elements of personnel management, facilitates federal efforts to offer equal pay for essentially equal work and to maintain fair pay relationships between jobs with different levels of difficulty.

How effective is federal classification? Over the past 10 years the system has been the subject of several, mostly critical, reviews. It has been found expensive, complicated, rigid, and not well administered. Recently, the President's Private Sector Survey on Cost Control (PPSSCC), also known as the Grace Commission, refocused public concern on federal job classification. The commission, which was asked to identify opportunities throughout the government to reduce federal spending, highlighted two classification problems, both with significant cost implications, that have drawn particular attention:

- The disproportionate number of federal jobs with high grades, and
- The large number of incorrectly graded positions.

Various methods for dealing with federal grading and other classification problems have been set forth. Some analysts argue for a complete redesign of the federal personnel management system, including reform of both pay-setting and classification procedures. Others suggest that less far-reaching reforms should be instituted to deal directly with the problems of grade structure and incorrect grading. The Congressional Budget Office (CBO) has examined a range of approaches in its analysis.

FEDERAL GRADE STRUCTURE

Critics of federal classification efforts claim that grades for federal employees are too high, compared both with earlier levels and with the private sector. From March 1974 through March 1983, the average grade

for full-time permanent workers covered by the General Schedule and similar schedules increased nearly one-half grade, from 8.03 to 8.51. At the same time, the proportion of GS workers in middle-management grades (GS 11 through 15) increased from 33 percent of the work force to 37 percent. Salaries for federal workers are currently some 4 percent higher, on average, than in 1974 as a result of the growth in average grade over the past decade. According to CBO estimates, this increase now adds $1.3 billion annually to federal payroll costs.

Numerous factors have given rise to grade escalation. The changing character of governmental work--including growth in the portion of the work force in nonclerical jobs--may account for as much as two-thirds of the rise. Other factors include the general patterns of hiring, promotion, and firing as they have affected the grade distribution of the work force. Rapid promotions granted by some managers to compensate for repeated caps on pay adjustments, for example, push up average grade. In fact, the gradual increase in average GS grade commenced with the increase in the frequency of caps on governmentwide pay adjustments below levels determined to keep federal pay comparable with the private sector. To some extent, rapid promotions represent the flexibility of the current system to adapt to pay caps and other constraints. Such actions, however, can create permanent distortions in grade structure.

Even if all grade escalation were attributable to rapid promotions, however, its budgetary impact on average salaries has been far smaller than the impact of pay caps that have likely contributed to some of that rise. Capping pay also has other costs including those associated with recruitment and retention problems.

Comparisons with the Private Sector

Judgments about the proper grade distribution for the federal work force are difficult to make. To gain perspective on federal grade structure, CBO compared the grades and salaries of a selected group of federal workers and their counterparts in the private sector.

Compared with the private sector, the federal government appears to have a disproportionate share of its jobs at high grades. CBO analyses show that in 1983, one-quarter of federal jobs in the selected occupations were above grade GS-12 compared with less than one-tenth of private-sector jobs. At the low end, only 43 percent of federal jobs were below grade GS-11 compared with about 61 percent in the private sector. These comparisons obviously do not isolate all the differences between federal and private-sector work requirements. The unique demands of federal work

alone, however, could not likely explain the dissimilarity of federal and private grade distributions given the magnitude of the differences.

To understand more fully the cost implications of comparing work levels, CBO distributed the same data by salary interval. Given the larger proportion of federal jobs with high grades, one might expect a similarly uneven distribution across salary levels. The analysis revealed, however, that federal and private-sector salary distributions were almost identical. Comparisons by grade, then, tell only part of the story of the federal work force's job structure. Some decreases in federal payroll resulting from pay caps apparently have been offset by the cost of the government's top-heavy grade structure.

Despite the similarity of salary distributions, two important points should be noted. First, while the comparisons suggest that overall payroll for selected occupations may be similar, federal pay rates for similar levels of work have been shown to lag behind those in the private sector. In other words, the government has more middle- and top-ranked workers than the private sector but pays them much less. According to a Bureau of Labor Statistics survey, federal salaries may average around 20 percent less than those in the private sector for similar work. Second, similar payrolls notwithstanding, proper grade structure remains an important element in maintaining a balanced organizational structure and avoiding other personnel management problems that reduce efficiency and inhibit effectiveness.

Addressing the Problem of Overgrading

CBO analysis suggests that the problem of federal grade distribution may require action beyond merely reducing grades. To date, the Administration has proposed redistributing certain top-ranked jobs. The Congress may wish to consider other, more far-reaching reforms. The cost of the Administration's plan and two alternative approaches for reducing grades are presented here.

The Administration's Plan. The Administration plans to reduce the number of positions graded GS 11 through 15 by shifting 8 percent (or about 40,000 positions) to lower grades. Reductions would occur over four years, as vacancies arise, to avoid layoffs. The plan would not reduce the overall size of the work force, but would lower average grade by about one-tenth of one grade. Five-year savings under the plan would total some $3.9 billion (see Summary Table 1).

SUMMARY TABLE 1. EFFECTS ON PAYROLL OF DIFFERENT PERSONNEL MANAGEMENT REFORMS, 1985-1989 (In billions of dollars)

Reform Plans	1985	1986	1987	1988	1989	Cumulative Five-Year Effects
Administration's Plan	0.1	0.4	0.8	1.1	1.4	3.9
Comparability and the Administration's Plan	-1.9	-3.6	-5.2	-6.9	-8.6	-26.2
Basic Reform of the Federal Personnel System	0	0	0	-0.1	-0.1	-0.2

SOURCE: Derived by Congressional Budget Office from average salary and employment data provided by Office of Personnel Management.

NOTE: Details may not add to totals because of rounding. Minuses denote payroll costs.

Although the Administration's plan calls for four-year phasing of reductions, CBO analysis indicates that five-year phasing may be necessary. Moreover, as many as 90,000 jobs could be affected in efforts to achieve a net reduction of 40,000 positions. The plan's impact on average grade falls well below the PPSSCC recommendation of a one-half grade reduction, although a smaller reduction appears more realistic given that much of the rise in average grade over the past decade reflects the federal government's greater need for skilled workers.

Proponents of the Administration's plan point out that it permits restructuring of the work force largely within the context of current compensation and personnel management practices. Basic reform of these practices could also help but would generate substantial controversy and could increase federal costs. Although no substitute for other reforms, reducing the number of middle-management jobs offers a way to lower costs in the near term. On the other hand, managers worry about having to perform the same level of work with fewer higher-skilled personnel and

about maintaining the morale of workers whose promotions may be postponed or denied.

Comparability and the Administration's Plan. Since frequent departures from pay comparability have been cited as one factor contributing to high grades, the Congress could require that full pay comparability be phased in as part of the Administration's plan. Gradual implementation would permit time to refine existing comparability measures and to restructure jobs without layoffs. Once the reductions in jobs graded GS 11 through 15 contemplated by the Administration have taken place, further downgrading of top jobs could be considered. Should a 20 percent comparability pay adjustment be phased in, however, federal payroll--even with savings from restructuring--would increase by some $26.2 billion over five years. (The President's pay agent has suggested that with adjustments in method, the comparability gap could be much lower than 20 percent. Smaller comparability adjustments would, of course, result in lower payroll increases.)

Proponents of this option believe that comparability with the private sector is a sound basis for adjusting federal pay and point out that the mechanisms for carrying it out are already largely in place. Opponents note that the option would make federal pay completely comparable with that in the private sector but would leave federal grade structure still relatively top-heavy, at least for the near term. They also point out that the option would prove very costly and leave unresolved the many administrative problems of the classification system.

Reforming the Federal Personnel System. Another, more far-reaching alternative to the Administration's plan would involve basic reform of federal personnel management practices. A system reflecting such broad changes is currently being tested in a demonstration project involving four naval laboratories and could be extended to the rest of the government. The demonstration project features simplified classification procedures and pay adjustments based on performance.

Preliminary findings indicate that the reform measures have enhanced recruitment and retention of workers, but not without some costs. Average 1983 salaries for entry-level engineers and scientists were some 9 percent higher than they would have been under current practice--primarily due to managers' enhanced flexibility in setting salaries for recruits. Although it is too early to determine how salaries would be affected if the demonstration project were extended governmentwide, CBO estimates that a 9 percent increase in payroll for engineers, scientists, statisticians, and certain highly trained medical professionals could increase payroll by as much as $0.2 billion over five years.

Proponents of major reform believe that the changes reflected in the demonstration project mark a great improvement in federal personnel

management. They point out that improving federal recruitment and retention of personnel could help eliminate pressures on managers who, constrained by pay caps, have rewarded employees by raising their grade, thus contributing to grade escalation. Opponents argue that such sweeping reforms could prove costly and difficult to carry out, and suggest that further research is required. They also note that granting managers wider discretion in setting pay could create morale and administrative problems not unlike those experienced with the Senior Executive Service.

MISGRADING OF FEDERAL JOBS

In addition to having an excess of top-level jobs in its work force, the government also appears to have over 200,000 that are incorrectly graded. Based on a 1983 analysis by OPM, about 14 percent of federal GS positions (or 185,000 jobs) likely have grades higher than their duties and responsibilities warrant, and another 1.5 percent (or 20,000 positions) are graded too low. Overgrading averaged one and one-half grades governmentwide.

After carefully reviewing the analysis, CBO estimated that misgrading costs taxpayers about $0.7 billion annually, including benefits. Annual payroll costs alone for overgraded workers total $650 million. Though small when measured against total payroll, the amount represents a premium of nearly 16 percent on the payroll of overgraded workers. Incorrect grading, moreover, has undoubtedly contributed to the grade escalation experienced in recent years.

Improving Classification

The PPSSCC recommended that the Office of Management and Budget (OMB) launch an effort to lower the number of misgraded jobs. The commission also recommended that OPM and OMB provide greater oversight, direction, and guidance, and that job standards be updated and simplified. To supplement these efforts, the Congress could mandate correction of overgrading, perhaps restricting appropriations for agency salaries and expenses to enforce its mandate. The Congress could also modify statutes that, by protecting the grade and pay of downgraded workers, limit budgetary savings and incentives to correct overgrading. These statutes currently preserve the grade and pay of downgraded workers for two years. Thereafter, employees with salaries above the top step of their correct grade receive only one-half the annual governmentwide adjustments at that step until the top salary at the new grade catches up.

CBO examined three options for Congressional action in addressing the problem of overgrading. With modified pay- and grade-retention statutes, payroll savings from correction of overgrading could accumulate to as much as $875 million through 1989 (see Summary Table 2). Derived from OPM data, CBO estimates represent the net of overgrading less undergrading and have been adjusted to take account of job turnover. CBO amounts assume that all misgrading would be corrected by the end of 1985 and that there will be no reductions in the number of positions graded GS 11 through 15.

SUMMARY TABLE 2. EFFECTS ON PAYROLL OF OPTIONS TO CORRECT MISGRADING, 1985-1989 (In millions of dollars)

Option	1985	1986	1987	1988	1989	Cumulative Five-Year Reductions
Option I--Mandate Regrading Under Current Statutes a/	0	-45	-20	25	90	50
Option II--Mandate Regrading and Start Half-Pay Raises At Once	0	40	110	155	175	480
Option III--Mandate Regrading and Severely Modify Statutes	0	45	195	295	340	875

SOURCE: Derived by Congressional Budget Office from data provided by the Office of Personnel Management.

a. Minuses denote payroll costs.

Option I--Mandate Regrading Under Current Statutes. Should the Congress mandate regrading without modification of statutes that protect the grade and pay of downgraded workers, federal costs would decrease through 1989 by $50 million. In 1986 and 1987, costs would increase under this option primarily because the costs of correcting undergrading occur immediately, while the savings from correcting overgrading are delayed two years by grade- and pay-retention statutes. Supporters of grade and pay retention argue that it cushions the impact of regrading on employees and thus makes it easier for managers to take corrective action. Opponents believe that the government should not have to wait to achieve the savings from accurate classification and that postponing salary adjustments has reduced the budgetary incentives associated with proper grading.

Option II--Mandate Regrading and Start Half-Pay Raises Immediately. Downgraded workers with salaries higher than the top step of the correct grade would begin receiving half-pay increases immediately rather than after two years. In contrast to Option I's limited impact, this plan would generate five-year savings of $480 million. Proponents argue that the option offers sufficient protection to workers while increasing savings. Opponents argue that current statutes are more fair, especially given recent governmentwide curbs on federal pay and benefits.

Option III--Mandate Regrading and Severely Modify Grade- and Pay-Retention Statutes. In this approach, downgraded workers would move to the same step, rather than the nearest salary, of the correct grade. In addition, salaries would be adjusted to the correct level by denying, without delay, future governmentwide pay increases. Current pay levels for affected workers would not decline. Five-year savings under the plan could total some $875 million.

Progress up the steps at each grade of the General Schedule proceeds essentially according to length of service. Proponents of downgrading to the same step argue that workers' pay at the correct grade should be in keeping with length of service. They add that substantial savings are achieved under this option with no reduction in workers' current salaries--only denial of future pay increases until their correct salary catches up with their current salary. Denying pay adjustments, however, could mean that earnings for some workers will not keep pace with inflation. Moreover, certain workers could experience special hardships. Recently promoted workers, for example, could be moved to a grade or step lower than their previous one. Special provisions might be made in such cases.

CHAPTER I. INTRODUCTION

Salaries of the federal government's 1.4 million employees paid according to the General Schedule (GS) are based on their duties and responsibilities as reflected by the grade levels of the positions they occupy. 1/ Grade levels for federal positions, as well as job titles and occupational designations, are determined by a classification system that compares a job's duties to position classification standards prepared by the Office of Personnel Management (OPM). All federal GS jobs, together covering a diverse collection of some 440 professional, administrative, technical, and clerical occupations, are assigned to particular grades by this system.

As one element of federal personnel management, job classification is intended to provide a systematic method for determining the relative worth of the vast number of jobs required by the government. When effective, classification is said to promote good employee morale, aid in efforts to keep salaries comparable to those in the private sector, and assist agencies in recruiting and retaining employees. Grade assignments not only help determine salary but also reflect an employee's standing within an organization or career. When accurate, job classification helps the government maintain fair relationships between pay rates for jobs with different levels of difficulty, and to offer equal pay for jobs requiring equal duties, responsibilities, and qualifications.

How effective and accurate is the current federal classification system? Since its inception, this system has been the subject of more than a dozen major reports. Most recently, the President's Private Sector Survey on Cost Control (PPSSCC), better known as the Grace Commission, was mandated by executive order to identify opportunities for increasing government efficiency and reducing its costs. Included in the commission's report were several recommendations that focused on the classification system's

1. The General Schedule employment total was provided by the Office of Personnel Management and covers full-time workers. Most of the white-collar positions in the Executive Branch are paid according to rates set out in the General Schedule.

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effectiveness. 2/ In particular, two problems, both with significant programmatic and budgetary implications, have drawn considerable attention:

- The increase in average grade of the federal work force, and the disproportionate number of federal jobs with high grades, and
- The large number of incorrectly graded positions.

The remainder of this chapter examines the General Schedule classification system and highlights various approaches for its improvement.

THE GENERAL SCHEDULE CLASSIFICATION SYSTEM

Principal authority for the current federal GS classification system derives from the Classification Act of 1949, as amended. 3/ This act established the General Schedule with its 18 grades into which most white-collar federal positions are slotted. 4/ Each grade represents a different level of difficulty and responsibility and has a series of salary rates, or steps, associated with it. At present, advancement up these steps proceeds essentially according to length of service.

The classification system evaluates the jobs rather than the people holding the jobs--an approach based on the premise that an employee's pay level should be determined primarily by the duties and responsibilities of the job held rather than by his or her qualifications and other personal characteristics. 5/ Under this system, personnel specialists in each agency have primary responsibility for classifying positions. OPM promulgates the job standards that serve as a guide to agencies and monitors classification efforts for adequacy and accuracy.

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2. President's Private Sector Survey on Cost Control, Report on Personnel Management (1983), pp. 82-100.
3. U.S. Code, Title 5, Chapter 51.
4. In 1979, under authority of the Civil Service Reform Act of 1978 (P.L. 95-454), nearly 7,000 positions, mainly at grades GS 16 through 18, were converted to a separate pay and classification system under a newly established Senior Executive Service. This report focuses on positions in grades GS 1 through 15.
5. Other approaches to classification, based on the rank of an individual occupying a position, are found in the armed services, the U.S. Foreign Service, the Senior Executive Service, and the civil service corps of Great Britain and other countries.

The Role of Agency Classifiers

Federal classification is highly decentralized. The major burden of classifying federal jobs rests with some 2,500 position classifiers employed by the many, diverse agencies and departments that make up the federal government. Although some analysts have criticized the adequacy of classification training received by these workers, the federal classifiers, as a group, appear to be experienced and generally well educated. According to OPM data, classifiers currently average about 16 years of service, and just over 60 percent have completed four years of college or more.

Classification begins with a detailed study of the job under consideration. Pivotal to this stage are position descriptions that detail a job's duties, responsibilities, and supervisory relationships. Agency managers usually prepare these descriptions, with OPM position classification standards as a guide in many cases. Managers then submit position descriptions to the personnel classifiers, who check their accuracy. Using personal interviews, direct observations, and classification standards, the classifier determines whether correct titles, occupations, and grades have been assigned.

Because of the decentralization of federal classification, job standards must be accurate, complete, and up-to-date if classification efforts are to be consistent throughout government. Although OPM has adopted a factor evaluation system (described below) to facilitate objectivity and consistency in preparing standards, subjectivity continues to play a role in the classification process, and managers and position classifiers may not always follow established procedures.

OPM Position Classification Standards

Current law requires OPM to prepare, publish, and keep up-to-date position classification standards that set out descriptions of work, official job titles, and criteria used for determining grade levels. At present, 361 of the 443 occupational series are covered by published standards or by standards for closely related occupations. These standards cover 98 percent of the full-time civilian GS work force. 6/ While room for improvement remains, most GS workers hold positions with fairly current standards. Just over 50 percent of the work force, covering 121 occupations, falls under

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6. Many occupations not covered by standards have so few employees as to make development of specific standards through full occupational studies inefficient. According to OPM data, only about 10 of the 82 jobs in this category have more than 1,000 employees. Classifiers generally evaluate positions in these occupations using standards for similar occupations.

standards that are less than 10 years old. Some 6 percent, distributed over 61 occupations, have job standards that are more than 20 years old (see Table 1).

In 1975, OPM began converting its standards from a strictly narrative format to a more quantitative format. Under this factor evaluation system (FES), jobs are evaluated using standard factors, each with a range of points, instead of general written descriptions of duties and responsibilities. (An example of work activity described in FES format is included in Appendix A.) FES standards contain nine factors representing aspects of

TABLE 1. OCCUPATIONS AND EMPLOYEES COVERED BY OPM POSITION CLASSIFICATION STANDARDS

	Number of Occupations	Number of Employees a/	Percent of Employees
Coverage by OPM Standards			
Without Standards	82	33,000	2
With Standards	361	1,366,000	98
Total	443	1,399,000	100
Distribution by Age of Standards			
Less than 10 Years Old	121	712,000	51
10 to 20 Years Old	158	512,000	37
More than 20 Years Old	61	81,000	6
Age Varies b/	21	61,000	4
Total	361	1,366,000	98

SOURCE: Office of Personnel Management.

a. Full-time, civilian GS employment as of July 1983.

b. Components of occupations in this category are covered by different standards with varying ages.

most white-collar jobs such as knowledge, difficulty, and complexity. Each factor contains levels of difficulty with point values assigned to them, and total points from all nine factors equate to grade levels of the General Schedule. About 60 of the 357 standards promulgated by OPM have been issued in factor evaluation format. OPM originally planned to have a basic set of 290 classification standards converted to the FES by 1981. Assuming no major interruption in the process and given past production levels and current budgetary constraints, CBO estimates that translation of all standards to FES format could easily take another 10 to 15 years.

PROBLEMS WITH THE CURRENT CLASSIFICATION SYSTEM

As mentioned above, the federal classification system has been the subject of numerous studies. 7/ In general, critics have found the system costly, contentious, complex, inflexible, and poorly administered. Position classification standards have been criticized as too long, difficult to understand, and outdated. In years past, audits by the General Accounting Office (GAO) have found agency position descriptions to exhibit many of the same characteristics. 8/ Analysts have charged OPM with failing to exercise strong leadership and oversight of classification. Federal managers have complained of difficulty in recruiting for entry-level jobs, in rewarding performance, and in meeting private-sector salaries. Some claim the limited training provided to classifiers is insufficient. These and other problems are said to have contributed to widespread overgrading of jobs and steady grade escalation as well as other errors (for example, undergrading) in position classification.

APPROACHES FOR IMPROVING THE SYSTEM

Analysts have set forth a variety of recommendations for improving federal classification. An ideal classification system would achieve its primary objective--promoting equitable pay relationships--and would help an organization to recruit and retain good workers and to achieve a rational structuring of jobs. Some would argue for a complete overhaul of current federal personnel management practices including those covering pay. One such alternative to current practice is now being tested by the government.

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7. In addition to the report of the President's Private Sector Survey on Cost Control, see, for example, Classification Task Force, A Federal Position Classification System for the 1980's (April 1981).

8. General Accounting Office, Classification of Federal White-Collar Jobs Should be Better Controlled (December 1975).

Under authority of the Civil Service Reform Act of 1978, OPM, in conjunction with the Department of the Navy, has implemented a personnel demonstration project involving four naval laboratories. The project, begun in July 1980, provides for a simplified, flexible classification system that includes mechanisms for tying pay and promotions to performance.

Other analysts argue for more narrowly conceived reforms largely within the context of the current classification system. Some posit that pay reform, for example, would reduce pressures on classification efforts that have contributed to overgrading. Such reform could include making government salaries comparable to those in the private sector--gauging comparability under existing measures or under alternative measures now being considered by the Administration. To date, OPM has chosen to target specific areas of concern for action, including review of agency practices and procedures and analyses of certain personnel management problems. As part of its oversight responsibilities, the agency last year issued its third governmentwide analysis of the magnitude and extent of overgrading. 9/ In addition, FES standards have been introduced to shorten job standards and improve the consistency of classification governmentwide. Finally, OPM has temporarily suspended revision and update of position classification standards so that resources can be devoted to a review of classification and the entire standards preparation process.

Two other remedies for problems associated with the system have been set forth recently, neither of which would fundamentally change current classification procedures. Consistent with recommendations made by the PPSSCC, the Administration has announced plans to reduce the portion of middle-management and other high-ranking jobs over the next four years. Such action, designed in part to halt the upward trend in grades, would slightly reduce the average grade for GS workers. The PPSSCC has also recommended vigorous efforts to identify and correct jobs with inaccurate grades. As described in Chapters II and III, the different approaches to reform--both those broadly conceived and those more narrowly focused--offer their own unique advantages in dealing with the problems of federal classification. Each also has limitations. Any reform effort, moreover, should recognize the strengths of the current system, which shows some ability to adapt to budgetary and other constraints.

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9. Office of Personnel Management, Federal White-Collar Position Classification Accuracy (March 1983). OPM also recently completed, but has not yet published, an analysis of overgrading for computer specialists' positions.

CHAPTER II. OVERGRADING AND THE STRUCTURE OF THE GENERAL SCHEDULE WORK FORCE

Critics of the federal classification system claim that grades for federal employees are too high, when compared both to earlier levels and to those in the private sector. In response, the Administration plans to reduce the portion of federal jobs in those higher grades. Under the plan, the number of positions graded GS 11 through 15 would fall by about 40,000 over four years, with a corresponding increase in positions at the lower grades. No layoffs should occur. CBO analysis indicates that such action would modestly reduce the average grade of the GS work force but could cause problems for federal managers who would then have to carry out programs with a smaller and disrupted middle-management work force.

In this chapter, CBO presents its analysis of the upward trend in average grade, compares the structure of the federal work force with that of the private sector, and describes the programmatic and budgetary impacts of both the Administration's plan for reducing the number of jobs graded GS 11 through 15 and alternatives to it.

INCREASE IN AVERAGE GRADE

The average grade of the federal work force remained fairly stable during the four-year period following implementation of the Federal Pay Comparability Act of 1970, which provides for equal pay for substantially equal work. 1/ Thereafter, average grade began a gradual climb upward. From March 1974 through March 1983, average grade for the full-time, permanent employees under the General Schedule and those covered by similar pay schedules increased nearly one-half grade, from 8.03 to

1. The 1970 Federal Pay Comparability Act, Public Law 91-656, reaffirms Congressional policy that the government adjust federal salaries to conform to pay for similar private-sector jobs and sets procedures for implementing that policy. The act also provides the President with authority to recommend an alternate adjustment. Other pay-setting principles set out by the act require that pay distinctions be maintained in keeping with work distinctions, and that pay levels for statutory pay systems be interrelated.

TABLE 2. INCREASE IN AVERAGE GRADE FOR THE FULL-TIME, PERMANENT WORK FORCE UNDER THE GENERAL AND SIMILAR SCHEDULES, BY TYPE OF AGENCY

Agency	Average Grade		Increase
	March 1974	March 1983	
All Agencies	8.03	8.51	.49
Defense	7.85	8.23	.39
Nondefense	8.18	8.75	.57

SOURCE: Derived by Congressional Budget Office from data provided by the Office of Personnel Management.

NOTE: Details rounded independently.

8.51. 2/ While both defense and nondefense agencies exhibit upward trends in average grade, increases for nondefense agencies as a group were almost 50 percent higher than those for defense agencies (see Table 2, above). The rise in average grade was accompanied by an increase in the percentage of the entire GS work force in middle-management grades (GS 11 through 15)--from 33 percent of the work force in 1974, to 37 percent in 1982. As described later in this chapter, the current federal grade distribution for many occupations stands in sharp contrast to that of the private sector.

Change in average grade can also be measured by its impact on the resources required to support the federal work force. CBO estimates that salaries for federal, full-time, white-collar workers are currently about 4 percent higher than in 1974 due to increases in average grade since that year. 3/ Translated to a dollar impact for the work force as a whole, grade escalation now adds about $1.3 billion to the federal payroll annually

2. Some 23,000 employees are paid under systems tied to the General Schedule though not officially covered by it. These systems are referred to here as "similar schedules."

3. The grades of the General Schedule, weighted by the work force at each grade, yields average grade. The 4 percent payroll cost of a half-grade increase in average grade was obtained by comparing current average

Factors Contributing to Grade Escalation

A variety of factors has contributed to increases in both the average grade of the work force and in the proportion of employees in higher grades. Although it is difficult to isolate the magnitude of the impact for each contributing factor, about two-thirds of the average grade increase seems to relate to the changing character of governmental work. 4/ The government's requirement for more skilled workers, for example, has markedly changed the occupational mix of the work force--boosting the proportion of federal workers in generally higher-graded professional, administrative, and technical jobs. Nonclerical workers represented about 68 percent of the total white-collar work force in October 1974, but 73 percent by October 1981. About one-half of this increase covers occupations in the social and biological sciences, accounting, budgeting, medicine, and law. Wholly apart from the changing occupational mix of the work force, but related to changes in the character of governmental work, OPM has from time to time raised grades for specific jobs in recognition of increased duties and responsibilities. Three key actions--affecting Social Security and other claims representatives, federal nurses, and air traffic controllers--may account for about 5 percent of the overall increase in average grade since 1974.

General patterns of hiring, promotion, and separation also contribute to grade escalation. Separations due to past reduction-in-force actions, for example, have been distributed in such a way as to leave a higher average grade for the remaining pool of workers. Rapid promotions, granted by managers in an effort to compensate workers for the inflexibility of procedures for giving within-grade pay increases or for repeated departures from pay comparability, may also boost average grades. CBO analysis indicates, in fact, that the gradual increase in average grade commenced at the same time annual pay adjustments below comparability became more frequent. 5/ To some extent, rapid promotions and related grade increases

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salaries to those that would exist if employees were distributed among GS grades as they were in 1974, when grades began to escalate, and if the current pay schedule were in force.

4. Derived by Congressional Budget Office from data provided by the Office of Personnel Management.

5. From January 1971 through October 1974, during which period the average grade changed little, only one of the five annual pay adjustments departed from comparability. Since then, as average grade has gradually increased, seven of nine pay adjustments have been below comparability. For a discussion of federal managers' responses to underpayment of federal workers, see Robert W. Hartman, Pay and Pensions for Federal Workers (Brookings Institution, 1983), pp. 35-38.

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represent the system's ability to accommodate the pressures associated with current pay constraints. Such practices, however, create permanent distortions in grade structure. When positions occupied by workers who have received rapid promotions become vacant, for example, they are usually filled at the higher grade.

Even if all grade escalation could be attributed to efforts to compensate for low pay, the impact of that practice on average salaries has been far smaller than the impact of capping pay raises below comparability. The 1983 average General Schedule salary of $24,400, for example, would decrease to $23,500 if discounted for grade escalation over the past decade. The same salary would increase to nearly $27,800, however, if full comparability pay adjustments had been granted over the same period. The budgetary impact of grade escalation, then, has been much less significant than the impact of pay caps, which in turn have likely contributed to some of the rise in grades. In addition to grade escalation, of course, capping pay has other costs including those associated with problems in recruiting and retaining employees.

FEDERAL GRADE AND SALARY DISTRIBUTIONS: COMPARISON WITH THE PRIVATE SECTOR

Grade escalation has contributed to a federal grade structure with large numbers of jobs grouped at higher grades. Although judgments about the proper distribution of federal jobs are difficult to make, comparison with the private sector--the standard commonly used by analysts--suggests a top-heavy federal system. When distributions of salary rather than of grade are compared, however, a much different picture emerges: the white-collar work forces of the federal government and the private sector are nearly identical. The government seems, then, to have a disproportionate number of workers at higher-ranked jobs--but not at higher-paying jobs.

The CBO examined grade and salary distributions for seven types of work covering over 200,000 federal employees in a variety of occupations, ranging from engineer to personnel administrator, and compared them to distributions in the private sector. 6/ Where possible, CBO included support

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6. The seven types of work included in the CBO analysis are: (1) personnel, covering personnel directors and clerks; (2) accounting, covering accountants, auditors, and accounting clerks; (3) purchasing, covering buyers and purchasing assistants; (4) legal; (5) chemical; (6) engineering, covering engineers, technicians, and drafters; and (7) automated data processing, covering computer operators and key-entry personnel.

occupations, such as personnel clerk, to give a more complete picture of the types and levels of jobs considered in its analysis. Federal grade distributions were obtained from OPM's Central Personnel Data File. The occupational categories and private-sector data were drawn from the 1983 white-collar survey performed by the Bureau of Labor Statistics (BLS). 7/ The results of the BLS surveys serve as a basis for annual governmentwide pay reviews.

Occupational definitions used in BLS surveys are designed to correspond to specific GS grades. BLS survey results represent an aggregation of information from a large number of diverse firms, similar to the diversity of federal organizations and operations. Given the size of the federal government, CBO considered data from larger firms--those employing 2,500 workers or more. The CBO comparisons, however, covered only selected types of work and organizations, and therefore represent only a few of many possible comparisons. Detailed results, summarized in Appendix B, may not apply to the government as a whole, and comparisons using other types of work might yield different results. Nonetheless, CBO findings offer strong evidence that analysis of grade distribution alone may be of limited value as a basis for comparing federal and private work forces.

Comparisons by Grade

The CBO found that grade distribution in the federal government was top-heavy relative to that in the private sector (see Table 3). Although the analysis obviously does not isolate the many differences between federal and private-sector work requirements, the unique demands of federal work alone would not likely explain the magnitude of the differences in grade distributions for similar lines of work. About one-quarter of the federal jobs stand above grade GS-12 as compared with less than one-tenth of the private-sector jobs. Conversely, just over 43 percent of the federal jobs fall below grade GS-11 compared with about 61 percent in the private sector. Average grade in the federal government is almost two-thirds of a grade higher than the average for the private sector. Although the average grade of both private and federal distributions is somewhat higher when support occupations are excluded from the comparisons, the federal grade structure still remains top-heavy relative to that of the private sector.

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7. See Bureau of Labor Statistics, National Survey of Professional, Administrative, Technical, and Clerical Pay (March 1983).

TABLE 3. DISTRIBUTION, BY GRADE, OF FEDERAL AND PRIVATE-SECTOR WORKERS IN SELECTED PROFESSIONAL AND RELATED SUPPORT OCCUPATIONS, MARCH 1983
(In percents)

GS Grade	Federal	Private
15	4	a/
14	8	2
13	13	6
11 and 12	32	31
Under 11	43	61
Total	100	100

SOURCE: Congressional Budget Office.

a. Less than one-half of one percent.

Comparisons by Salary

To gain an appreciation of the cost implications of comparisons of grade levels, CBO also distributed the same selected federal and private-sector data by salary levels. Comparison of salaries avoids use of grades or other designations that rely on interpretation of general job descriptions. Further, private firms commonly use salaries rather than grade rankings to identify relative differences in duties and responsibilities.

On the basis of salary distribution, CBO comparisons show little difference between the federal government and the private sector. The detailed comparisons shown in Appendix B used nine salary ranges, but to simplify presentation here they have been compressed into three salary bands. At each band, the distributions for the selected federal and private-sector work forces are almost identical--about one-tenth at senior levels with salaries of $47,400 and over, and about two-thirds below the middle level with salaries under $35,400 (see Table 4). When support occupations are excluded from the comparison, the number and proportion of workers in

TABLE 4. DISTRIBUTION, BY SALARY, OF FEDERAL AND PRIVATE-SECTOR WORKERS IN SELECTED PROFESSIONAL AND RELATED SUPPORT OCCUPATIONS, MARCH 1983
(In percents)

Salaries (In dollars)	Federal	Private
47,400 And Over	10	9
35,400 But Under 47,400	25	24
Under 35,400	65	67
Total	100	100

SOURCE: Congressional Budget Office.

the lower band are lower for both the federal and private-sector distributions, but the two distributions remain similar.

The nearly identical federal and private-sector work force distributions by pay levels also mean nearly identical payrolls for the selected types of work compared. Thus, from a budgetary perspective, payroll decreases resulting from below-comparability salaries paid for prescribed levels of federal work tend to be offset by payroll increases resulting from a top-heavy federal grade structure. Put another way, the federal white-collar work force--compared with that of the private sector--has proportionately greater numbers of middle- and top-ranked workers, but the government pays them less.

Despite the similarity of salary distributions for the occupations compared by CBO, two important points should be noted. First, although CBO comparisons suggest that overall federal payroll is similar to the private sector's for certain types of work, federal pay rates for specific jobs have been shown to lag behind those in the private sector. Salary comparisons may mask the fact that two workers doing the same level of work may make vastly different salaries in the federal government and private sector. In recent years, both the definition of what constitutes comparable federal and private-sector pay, and the method of determining

comparability, have been widely debated. As measured in 1983, however, BLS surveys showed that federal salaries averaged about 20 percent below private-sector salaries for similar work. Second, similar payrolls notwithstanding, proper grade structure remains an important element of good personnel management. A top-heavy grade structure, as revealed by the selected CBO comparisons, may serve as evidence of organizational fragmentation, excessive layering, and other personnel management problems that reduce efficiency and inhibit effectiveness.

ALTERNATIVE APPROACHES TO THE CORRECTION OF OVERGRADING

Realistically, any measure that would help promote a fair and equitable classification system would also facilitate federal efforts to recruit and retain a qualified work force at minimal cost. To date, the Administration has proposed a redistribution of certain middle-management and other high-ranking jobs that would lower grades but leave pay and other personnel management practices largely in place. The CBO analyses suggest, however, that correcting the imbalance in federal grade distribution may require action beyond merely reducing the number of positions in higher grades, as proposed by the Administration.

To supplement the Administration's plan, the Congress could consider closer alignment of not only federal grade structure but pay rates with those in the private sector. Achieving full pay comparability and identical grade structure could have dramatic impacts on both the work force and the budget, however, and a more limited, phased implementation might be appropriate. If more far-reaching measures are deemed necessary, the Congress could consider fundamental reform of the entire federal personnel system along the line now being tested in the Navy demonstration project. The Administration's plan and these two alternative approaches are examined below.

The Administration's Plan

Consistent with recommendations made by the Grace Commission to lower grades of the federal work force, the Administration plans a reduction of 8 percent (or about 40,000 positions) in the number of middle-management positions graded GS 11 through 15. Jobs lost at the higher grades would be replaced with jobs at lower grades. The Administration's plan, therefore, would not reduce the total number of federal jobs but only the number of jobs at the higher grades.

To avoid layoffs and minimize hardships on employees, the current plan phases reductions over four years so that they could take place as

vacancies occur. OPM has set up a reporting system to monitor improvements in agency personnel management, including changes in the number of employees in grades GS 11 through 15, and the Office of Management and Budget (OMB) has established procedures for reducing agency budgets to reflect expected savings from the program. Even if the Congress decided that the measures proposed by the Administration were sufficient to correct overgrading, it may wish to review information collected by OPM to monitor the impacts of the Administration's program including the effects of lower-skilled personnel levels on agency operations. The Congress may also want to give attention to reductions incorporated in agency appropriations requests under OMB direction. Where it deems appropriate, the Congress could also mandate position reductions to reinforce Administration action.

Payroll savings under the Administration's plan, according to CBO estimates, could amount to $1.4 billion in 1989. 8/ Five-year savings would accumulate to $3.9 billion (see Table 5). OMB calculations used to reduce agency budgets would likely capture only about three-quarters of the five-year savings estimated by CBO. Rather than yield direct budgetary reductions, the balance would help fund increases in other agency requirements.

How agencies would carry out the Administration's plan has not yet been determined. For estimating purposes, CBO constructed a scenario that assumes the Administration's program would be vigorously and fully implemented. 9/ Because the Administration's plan does not specify the number of positions to be reduced in each grade, CBO estimates assume an equal reduction of 8 percent at each grade, GS 11 through 15. CBO also assumed that the offsetting increase at lower grades would occur at grade GS-9--the first nontrainee grade level of many professional occupations. In CBO's scenario, jobs would shift to the next lower grade--GS-15 jobs to GS-14, and so on. To accomplish this and still reduce positions by 8 percent below

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8. The Office of Management and Budget's estimate of the Administration's plan would reduce budget estimates for salaries at GS 11 through 15 by .55 percent in 1985, 1.65 percent in 1986, 2.75 percent in 1987, 3.85 percent in 1988, and 4.40 percent in 1989. Applied to the payroll used in CBO estimates, these factors yield total five-year savings of some $3.0 billion, about 25 percent below the CBO total five-year salary reduction of $3.9 billion. The lower OMB numbers appear to assume that as positions are filled at lower grades, the new recruits would earn the average salary for grades GS 1 through 10 rather than the entry-level salary at grade GS-9 (as assumed by CBO).

9. Agencies that, by virtue of their mission, have highly graded staffs may find it difficult to achieve a full 8 percent reduction, in which case overall savings would be smaller.

TABLE 5. EFFECTS ON PAYROLL OF DIFFERENT PERSONNEL MANAGEMENT REFORMS, 1985-1989
(In billions of dollars)

Reform Plans	1985	1986	1987	1988	1989	Cumulative Five-Year Effects
Administration's Plan	0.1	0.4	0.8	1.1	1.4	3.9
Comparability and the Administration's Plan	-1.9	-3.6	-5.2	-6.9	-8.6	-26.2
Basic Reform of the Federal Personnel System	0	0	0	-0.1	-0.1	-0.2

SOURCE: Derived by Congressional Budget Office from average salary and employment data provided by Office of Personnel Management.

NOTE: Details may not add to totals because of rounding. Minuses denote payroll costs. All estimates represent changes from a baseline that assumes, consistent with CBO's August 1984 budget update, an average GS pay raise of 5 percent a year.

current levels, agencies would have to shift 8 percent of the positions at a grade, plus enough to accommodate any shift from the next highest grade. Under such an approach, as many as 90,000 jobs could be affected to achieve a net reduction of 40,000 jobs. CBO analysis indicates that reductions at the lower middle-management grade levels may exceed projected vacancy rates. If that were true, as assumed in CBO estimates, the targeted downgradings would have to be extended to a fifth year to avoid layoffs.

The Administration's proposal would drop the portion of the work force in grades GS 11 through 15 back closer to the 1974 level and would reduce the average grade of the entire federal white-collar work force by an estimated one-tenth of one grade--far less than the reduction of one-half

of one grade recommended by PPSSCC. The PPSSCC reduction, however, seems inappropriate and much too optimistic given that about two-thirds of the increase in average grade since 1974 reflects the federal government's need for more skilled workers (see above section on Factors Contributing to Grade Escalation). For most grades, managers could achieve the required reductions by not filling about one-half of the vacancies that occur.

Reducing the number of jobs in grades GS 11 through 15, say proponents, permits restructuring of the work force within the context of current compensation and personnel management practices. While no substitute for more fundamental reform, reducing middle-management jobs offers a way to lower the cost of high federal grades in light of projected federal deficits.

Critics of the plan caution that eliminating 40,000 positions in grades GS 11 through 15 could cause a number of problems for federal managers. Some agencies might have trouble carrying out their mission with the lower-skilled personnel that would ensue with downgrading. The morale of experienced managers might fall if their promotions were denied or postponed. Restricted promotions might also mean that agencies would find it more difficult to recruit and retain a qualified work force. Finally, pointing out that both reductions in force and restrictions in annual pay raises have contributed to grade escalation, opponents argue that efforts to correct overgrading should include more comprehensive reforms of federal pay and personnel administration.

Pay Comparability and the Administration's Plan

Frequent departures from pay comparability have been cited as one factor contributing to the disproportionate number of federal jobs with high grades. Providing full comparability adjustments, however, would increase federal costs and leave the government's top-heavy grade structure untouched. As an alternative, the Congress could require that full pay comparability be implemented gradually but simultaneously with the Administration's grade restructuring plan. This phased approach would permit time for refinement of comparability measures and provide for redistribution of jobs without layoffs. Upon achieving the reductions in jobs graded GS 11 through 15 contemplated by the Administration, further redistributions could be considered. As currently measured, pay comparability in 1985 could require an average pay raise of around 20 percent for white-collar

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workers. 10/ Should an adjustment at this level be phased in over five years, even with savings from the Administration's plan, CBO estimates that federal payroll increases in 1989 would total $8.6 billion. Increases would accumulate to $26.2 billion over five years.

Proponents of comparability believe it a sound and equitable basis on which to set and adjust pay for federal white-collar workers. Frequent departures from comparability, they point out, have contributed in part to the rise in federal grades. They argue that comparability, though costly and controversial, may prove less problematic to implement than the broad reforms included in the Navy's demonstration project (discussed below), as the mechanisms and procedures for granting annual comparability adjustments already exist. Moreover, forthcoming reforms of federal retirement programs (necessitated by inclusion of new hires in Social Security as of January 1, 1984) may make upward salary adjustment desirable as part of efforts to achieve comparability in total compensation. Opponents point out that such a plan would leave the government with comparable salaries, relative to those in the private sector, but a top-heavy grade structure. They also note that, while an improvement, the plan would prove costly, would likely be delayed by unresolved pay comparability issues, and would still require separate action on the many administrative problems of the classification system.

Fundamental Reform of the Federal Personnel System: The Navy Personnel Demonstration Project

Should the Congress decide that more ambitious measures are required to correct overgrading, it could consider basic reform of the entire federal personnel system. Such major changes in personnel management are, in fact, now the focus of a demonstration project conducted by OPM and the Department of the Navy under authority of the Civil Service Reform Act of 1978. This demonstration project, which covers four naval laboratories engaged in research and engineering work, is currently testing a simplified,

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10. The most recent Executive Branch report on comparability shows a pay gap averaging 18.3 percent, incorporating somewhat different statistical measures and job comparisons from those used in earlier reports. The report also notes that more far-reaching changes in method--such as the inclusion in pay comparisons of data on small firms, state and local governments, and not-for-profit organizations--could shrink the comparability gap to as little as 2 percent. See the annual report of the President's Pay Agent, Comparability of the Federal Statutory Pay Systems with Private Enterprise Pay Rates (1984).

flexible classification system that includes provisions for basing promotions and pay adjustments on performance. If successful, this system could be extended governmentwide. (See Appendix C for details and preliminary findings of the demonstration.)

Under the demonstration, each position is assigned to one of several broad pay bands. To aid federal recruitment efforts, managers may use discretion in setting pay within the broad range stipulated for a job to account for local labor market conditions and superior qualifications of job candidates. To facilitate retention, progress up the salary range encompassed by each pay band is tied to performance, thus enabling managers to recognize experience and superior work. The pool of funds for such merit awards cannot exceed the amount available for annual October adjustments plus the amount the demonstration sites spent in the past for within-grade increases and incentive awards.

The personnel management practices implemented at the demonstration sites appear to offer potential for improved federal recruitment and retention, but not without added costs. Preliminary data indicate that some salaries at experimental sites have increased at a rate faster than might have occurred in the absence of the demonstration. 11/ Most of the difference appears attributable to the managers' enhanced flexibility in setting pay for new workers. Average 1982 salaries for entry-level scientists and engineers stood about 9 percent higher in the demonstration than they would have under the current system. 12/

It is too early to determine how salaries of scientists, engineers, and other professionals might be affected should the demonstration project's personnel practices be extended governmentwide. CBO estimates that a 9 percent increase in entry-level salaries for scientists, engineers, statisticians, and certain highly trained medical professionals could increase federal payroll costs by $105 million in 1989. Assuming that such salaries would increase by 9 percent over the first two years of full implementation, extending the demonstration project governmentwide would increase five-year payroll costs by $0.2 billion (see Table 5).

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11. Coopers and Lybrand, Evaluation of the Navy Demonstration Project (September 1982); and Office of Personnel Management.

12. Interestingly, one feature of the current system--namely, the inclusion of both clerical and entry-level professionals in some lower grades--invariably results in pay for professionals that is too low compared to that in the private sector (see Hartman, Pay and Pensions for Federal Workers).

Proponents of the project believe that its simplified classification procedures, performance-based pay adjustments, and entry-level pay flexibility mark a significant improvement over current practices, which are based largely on job rankings. Should such a system enhance federal recruitment and retention, they point out, pressures on managers that have contributed to rapid promotion and overgrading could decline. Opponents argue that the option, although perhaps contributing to a reduction in future overgrading, may not contribute to a resolution of existing problems. The project, of course, could be structured to do so. They note that the project's sweeping reforms could prove costly, controversial, and time-consuming to carry out. (OPM claims three more years will be needed to analyze the impacts of the demonstration.) Opponents also point out that granting managers wider discretion in setting pay could lead to problems in employee morale and personnel administration in later years, as occurred in the Senior Executive Service.

CHAPTER III. MISGRADING OF FEDERAL JOBS

In addition to having a disproportionate share of its jobs at higher grades, the federal government appears to have many jobs with incorrect grades. According to a 1983 analysis prepared by the Office of Personnel Management, about 14 percent of federal positions under the General Schedule likely have grades higher than their duties and responsibilities warrant, and another 1.5 percent have grades lower than warranted. 1/ Such misgrading, undoubtedly contributing to the grade escalation previously described, currently costs taxpayers some $0.7 billion annually (calculated as the cost of overgrading less savings from undergrading).

In its report on personnel management, the President's Private Sector Survey on Cost Control recommended that the Office of Management and Budget lead a vigorous effort to reduce the number of overgraded jobs. 2/ CBO estimates indicate that the correction of misgrading could lower federal payroll costs and budget deficits. In the near term, however, savings would be substantially limited if current statutes that protect the pay and grade of downgraded workers remain unchanged.

MAGNITUDE AND COST OF MISGRADING

The findings of OPM's 1983 analysis, given careful review by CBO, reflect audits conducted during 1980 and 1981 of over 700 GS full-time permanent positions. OPM used standard sampling techniques to select positions and then compared actual duties to published job standards. OPM found that 14.3 percent of the audited positions were overgraded and 1.5 percent were undergraded. 3/ Results of the sample audits were then

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1. Office of Personnel Management, Federal White-Collar Position Classification Accuracy (March 1983).

2. President's Private Sector Survey on Cost Control, Report on Personnel Management (1983), p. 95.

3. The Office of Personnel Management is 95 percent certain that the actual rate of government misclassification lies within 3 percent, plus or minus, of the estimated rate. OPM's weighting techniques, also reviewed by CBO, were appropriate to a stratified random cluster sample. For a description of OPM's statistical methods, see Office of Personnel Management, Federal White-Collar Position Classification Accuracy (March 1983), p. 3.

statistically weighted to the entire GS work force. According to CBO estimates, the audit results translate to some 185,000 full-time permanent positions (reflecting the current size of the work force) that are overgraded and approximately 20,000 positions that are undergraded. Another 8.9 percent, or about 115,000 positions, exhibited other classification errors such as incorrect title or occupation series. For those positions in which overgrading occurred, the average error governmentwide was about one and one-half grades.

Overgrading was found by OPM to vary according to type of agency, grade, and geographic location (see Table 6). 4/ Overgrading in nondefense agencies occurred about twice as frequently as in defense agencies and somewhat more frequently in grades GS 1 through 11 than in higher grades. Most strikingly, however, overgrading occurred almost four times as often in Washington, D. C., as in all the other areas combined. Although only about 15 percent of the full-time GS employees work in the Washington metropolitan area, the region accounted for nearly one-third of all overgraded positions. Overgrading in Washington, D. C., may in part reflect efforts by managers to recruit employees in an area where the concentration of federal agencies and private firms dealing with federal agencies generates intense competition for workers--though such competition may have lessened in recent years with restrictions in federal employment. OPM, however, found more misclassification of all types, including undergrading, in the Washington area. Certain characteristics of the audit sample itself may have contributed to this finding because the number of audits of defense positions in Washington was exceedingly small, and defense agencies nationwide show less overgrading.

Costs of Over- and Undergrading

Using the findings of OPM audits, CBO estimates that the 1983 net cost of incorrect grading, including those costs that accrue for future retirement benefits, totals some $660 million--that is, $785 million for overgrading less $125 million for undergrading. 5/ Payroll costs alone for overgraded workers total some $650 million, according to CBO (see Table 7).

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4. The Office of Personnel Management urges caution in interpreting results by agency, grade, and location as its sample was not designed to yield reliable results at such levels.

5. The cost of benefits is limited to the portion of retirement not covered by employee contribution and is calculated as an estimated accrual cost for current workers, averaging some 20 percent of payroll.

TABLE 6. OVERGRADING BY TYPE OF AGENCY, GRADE, AND GEOGRAPHIC AREA

	Thousands of Positions	Percent of Overgraded Positions
Governmentwide	185	14
By Type of Agency		
Nondefense	130	17
Defense	55	9
By Grade		
GS 1-11	145	15
GS 12-15	40	12
By Geographic Area		
Washington, D.C.	80	31
All Other Areas	105	8

SOURCE: Derived by Congressional Budget Office from data provided by Office of Personnel Management.

While this amount represents only about 2 percent of the total GS payroll for grades 1 through 15, it represents a significant premium--of nearly 16 percent on average--on the payroll of overgraded workers. Consistent with OPM findings, CBO estimates indicate that grades GS 12 through 15 accounted for nearly one-half the payroll cost of overgrading, even though overgrading was less frequent at those grades. (This is because the average cost of overgrading at the higher grades reflects higher salaries.) As described in the options below, the near-term budgetary savings available from correction of misgrading are much smaller than the ultimate annual payroll costs described here.

TABLE 7. PAYROLL COSTS OF OVERGRADING, BY GRADE GROUPING, 1983

GS Grades	Payroll Costs (In millions of dollars)	Costs as Percent of Overgrade Payroll	Costs as Percent of Total Payroll
1-11	350	15	2
12-15	300	18	2
All Grades (1-15)	650	16	2

SOURCE: Derived by Congressional Budget Office from data provided by the Office of Personnel Management.

NOTE: Costs were not adjusted to reflect the impact of pay and grade retention.

Causes of Misgrading

Analysts have identified a number of causes for the misgrading of federal jobs. Some misgrading may result from simple error or poor judgment. Assigning grades, after all--even when done by highly trained classifiers using well-prepared, up-to-date standards--involves a degree of subjectivity. Most misgrading, however, relates to the pressures on the classification system and the management deficiencies outlined in Chapters I and II. Observers have found that agency managers--key players in the classification process--have little incentive to concern themselves with good classification. Statutes that protect the pay and grade of downgraded workers have removed the budgetary incentive associated with careful grading. OPM contends, moreover, that current reduction-in-force procedures, which must be used when work is downgraded, create such serious organizational disruptions that managers are reluctant to reclassify positions. 6/

6. Agencies intending to lay off employees must decide on the jobs affected, determine which employees will lose or change their jobs, determine whether laid-off workers have rights to other jobs, issue notices to affected workers, and help employees find other jobs. Workers may appeal layoffs to the Merit Systems Protection Board.

Citing inadequate control and oversight by OPM and OMB, some critics of the federal classification system maintain that many agencies and their managers generally disregard personnel management objectives. As a result, the periodic reviews and revisions necessary to keep the classification system abreast of job changes due to reorganizations and altered missions, among other things, are often done poorly or are not done at all. 7/ Position descriptions in turn become outdated or inaccurate. OPM analysis indicates that 59 percent of the misclassified positions they reviewed had inaccurate position descriptions as compared with only 5 percent of those correctly classified. 8/

Observers have noted that the system, rather than providing the incentives necessary for good classification, has encouraged just the opposite. Managers who feel the system makes it difficult to reward performance or to offer competitive salaries necessary to recruit workers may resort to overstating positions to obtain higher grades. 9/ Limitations on pay increases, as described in the previous chapter, have likely compounded this problem.

OPTIONS FOR IMPROVING FEDERAL JOB CLASSIFICATION

Many proposals have been set forth for improving classification of federal jobs. Redesign and simplification of job standards, and greater provision of technical guidance and leadership by OPM, were two recommendations of the PPSSCC. With regard to misgrading, the commission recommended issuance of a Presidential memorandum placing responsibility on OMB for a scheduled reduction in the number of misgraded jobs. No memorandum has been issued to date, but OPM has launched a wide range of activities in efforts to improve classification. If an accelerated program of reclassification were implemented, the grades of the estimated 200,000 over- and undergraded jobs could be affected.

To supplement OPM efforts, the Congress could consider mandating identification and correction of misgrading, possibly enforcing its mandate through cuts in appropriations for agency salaries and expenses. At the

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7. See President's Private Sector Survey on Cost Control, Report on Personnel Management (1983), pp. 82-100.

8. Office of Personnel Management, Federal White-Collar Position Classification Accuracy (1983), p. 10.

9. See Classification Task Force, A Federal Position Classification System for the 1980's (April 1981), pp. 45-49.

same time, the Congress may want to consider alternatives to current statutes that protect the pay and grade of regraded workers and thereby limit budgetary savings available when misgrading is corrected. Under current law, downgraded workers keep their same grade and pay for two years. Thereafter, workers whose salaries exceed the top step of their correct grade receive half the annual governmentwide pay adjustments granted at that top step until the top salary at the new grade catches up. 10/ The pay and grade of some 2,000 downgraded workers are currently protected by such statutes at an annual payroll cost of about $12 million.

Should the Congress decide to mandate correct grading, it could either preserve the statutes that protect pay and grade in their current form, or select from a number of modifications to those statutes. CBO examined three alternatives:

- Option I--Mandate correction of misgrading under current statutes;
- Option II--Mandate correction of misgrading and limit pay raises immediately rather than after two years; or
- Option III--Mandate correction of misgrading, drop all overgraded employees to the same step of a lower grade, and provide no increases (instead of half-pay increases) to downgraded workers.

The budgetary estimates provided with each option were derived by CBO from survey data collected by OPM for its 1983 report on misclassification (see Table 8). The estimates represent the net impacts of overgrading less undergrading and take account of job turnover. The CBO totals assume that nearly all overgraded positions would be identified and downgraded by the end of 1985. If managers take more time to correct misgrading or choose alternatives to downgrading (such as restructuring jobs to justify higher grades), budgetary effects would diminish. The CBO totals also assume no reductions in the overall number of positions graded GS 11 through 15. Many misgraded positions would undoubtedly be corrected in the course of implementing the Administration's plan to reduce the number

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10. Assuming a governmentwide pay adjustment of 5 percent, for example, a worker earning $25,000, whose correct grade is GS-7, would receive a pay increase equal to 2.5 percent of the salary at Step 10 of that grade ($22,277), or about $557. Full pay increases would commence only when the salary for GS-7, Step 10, catches up to what the employee is then earning.

TABLE 8. EFFECTS ON PAYROLL OF OPTIONS TO CORRECT MISGRADING, 1985-1989 (In millions of dollars)

Option	1985	1986	1987	1988	1989	Cumulative Five-Year Reductions
Option I--Mandate Regrading Under Current Statutes a/	0	-45	-20	25	90	50
Option II--Mandate Regrading and Start Half-Pay Raises At once	0	40	110	155	175	480
Option III--Mandate Regrading and Severely Modify Statutes	0	45	195	295	340	875

SOURCE: Derived by Congressional Budget Office from data provided by the Office of Personnel Management.

NOTE: These estimates incorporate different assumptions from those used in estimates prepared for Congressional Budget Office, Analysis of the Grace Commission's Major Proposals for Cost Control (February 1984), pp. 278-280, and Reducing the Deficit: Spending and Revenue Options (February 1984), pp. 181-182. The amounts shown here reflect revised assumptions regarding the implementation of grade- and pay-retention statutes. In addition, they incorporate almost triple the rate of turnover used in the earlier estimates, reflecting OPM data not previously available. All estimates represent changes from a baseline that assumes, consistent with CBO's August 1984 budget update, an average annual GS pay raise of 5 percent.

a. Minuses denote payroll costs.

of positions in those grades by 40,000 (see Chapter II). The opportunity for savings from direct efforts to correct misgrading would then diminish. According to CBO, implementation of the Administration's plan might reduce the savings estimated here by around 5 percent.

Option I--Mandate Regrading Under Current Statutes

Under this option, the Congress would mandate regrading of misclassified positions without modifying current statutes that protect the pay and grade of downgraded workers. As a result, budgetary savings would accumulate to some $50 million through 1989. Payroll increases would occur in 1986 and 1987, primarily because the costs of raising the grade of undergraded positions occur immediately while the savings associated with lowering overgraded positions are delayed by grade- and pay-retention statutes.

Correct classification helps ensure that employees earn pay consistent with their duties and responsibilities. Sponsors of current grade- and pay-retention statutes thought such provisions would help reduce costly overgrading by making it easier for managers, who would no longer have to immediately reduce workers' pay, to downgrade positions. Proponents of retaining the statutes also claim that they cushion the effects of regrading on employees, who have usually been misgraded through no fault of their own, and thus help to maintain morale. Opponents argue that the government should not have to wait two years to achieve the efficiencies associated with correct classification. Also, the postponement of salary adjustments, rather than encouraging correct grading as intended by the Civil Service Reform Act, removes budgetary incentives to regrade positions.

Option II--Mandate Regrading and Start Half-Pay Raises Immediately

In this approach, the Congress would mandate correction of misgrading and eliminate the statutory two-year period before the commencement of half-pay adjustments. This action would reduce the size of future governmentwide pay increases received by downgraded workers whose salary exceeds the top level of the correct grade. Eliminating the two-year waiting period for workers downgraded as a result of reclassification efforts would make the budgetary savings associated with correct grading available much sooner. In contrast to Option I's limited impact, Option II would generate five-year cumulative payroll savings of some $480 million.

Proponents of this option believe that it would leave downgraded workers with sufficient protection while increasing potential budgetary

savings. Opponents argue that current statutes are fairer to employees, especially given other actions that have capped pay adjustments for all workers below comparability and reduced retirement and other benefits.

Option III--Mandate Regrading and Severely Modify Grade- and Pay-Retention Statutes

Under this option, the Congress would mandate correction of misgrading and modify current statutes so that regraded workers would move to the same step, rather than the nearest salary, of the correct grade. In addition, downgraded workers whose salaries are higher than that at the same step of the correct grade would immediately stop receiving future governmentwide pay increases until the correct salary catches up to their current salary. Current pay levels for affected workers would not decline. The five-year savings under this option would accumulate to some $875 million through 1989.

Progress up the steps at each grade of the General Schedule proceeds essentially according to length of federal service. Proponents of moving employees to the same step of the correct grade argue that to do otherwise would distort the nature of step assignments. From this perspective, workers ought not to receive pay at their correct grade in excess of that warranted by length of service. In addition, because employees are moved to the nearest salary that is not less than their present salary, current provisions may result in salary increases for some downgraded workers that together could cost the government over $100 million through 1989. While acknowledging the potential hardships caused some workers by denying them pay raises, proponents of this option point out that it requires no reductions in workers' salaries--only denial of some future pay increases.

Given projected budget deficits, the opportunity for immediate savings might justify the combination of moving workers to the same step of a lower grade while also denying pay adjustments. Option III, however, would represent a considerable hardship to the affected workers. Denying governmentwide pay adjustment for what could amount to several years might mean a reduction in earnings for some workers--in real dollars--and an accompanying loss of purchasing power. Certain workers, moreover, could experience special hardships. Recently promoted workers, for example, might be required to move back to a grade or step lower than the one promoted from. Special provision might be adopted for such cases.

APPENDIXES

APPENDIX A. POSITION CLASSIFICATION STANDARDS UNDER THE FACTOR EVALUATION SYSTEM

The tables and figure in this appendix illustrate three elements typically found in the factor evaluation system (FES), a relatively new method for classifying General Schedule jobs. Table A-1 summarizes the nine factors used to evaluate most jobs. In factor evaluation standards, definitions of the nine factors are followed by descriptions of different levels of difficulty related to that factor, along with the point value associated with each level. Table A-2 shows a schedule, similar to those found in OPM standards, used to convert total points assigned a job to a grade level.

Figure A-1 reproduces one of three benchmark job descriptions from the OPM classification standard for correspondence clerk, grade GS-5. (The other two descriptions cover grades GS 3 and 4.) Such descriptions, designed to aid in classifying jobs, set out the duties and responsibilities of a specific work situation in a factor evaluation format. They therefore serve as a good illustration of how work activities are related to the nine standard work factors and assigned points. About one-half of the 28-page standard for correspondence clerk is devoted to such benchmark descriptions.

TABLE A-1. DEFINITIONS AND POINT VALUES OF FACTORS USED TO RATE JOBS UNDER THE FACTOR EVALUATION SYSTEM

Factor	Definition	Maximum Possible Points	Suggested Points for Correspondence Clerk, GS-5
1. Knowledge Required by the Position	Measures the nature and extent of information or facts that the worker must understand to do acceptable work.	1,850	350
2. Supervisory Control	Covers the nature and extent of employee's responsibility, review of completed work, and supervisory control.	650	125
3. Guidelines	Covers the nature of guidelines used and the judgment needed to apply them.	650	125
4. Complexity	Covers the nature, amount, variety, and intricacy of work.	450	150
5. Scope and Effect	Covers the purpose, breadth, and depth of assignment and the the effects of the work product.	450	75
6. Personal Contacts	Covers face-to-face, telephone, and radio contacts with nonsupervisors.	110	25
7. Purpose of Contacts	Covers the nature of contacts covered in Personal Contacts, above.	220	20
8. Physical Demands	Covers physical demands placed on the employee by the work assignment.	50	5
9. Work Environment	Considers risks and discomforts associated with work.	50	5

SOURCE: Office of Personnel Management.

TABLE A-2. SCHEDULE FOR CONVERTING POINTS OF THE FACTOR EVALUATION SYSTEM (FES) TO GRADES OF THE GENERAL SCHEDULE

FES Point Range	GS Grade
190-250	1
255-450	2
455-650	3
655-850	4
855-1,100	5
1,105-1,350	6
1,355-1,600	7
1,605-1,850	8
1,855-2,100	9
2,105-2,350	10
2,355-2,750	11
2,755-3,150	12
3,155-3,600	13
3,605-4,050	14
4,055 and up	15

SOURCE: Office of Personnel Management.

Figure A-1.

Reprint of Benchmark Job Description for Correspondence Clerk, Grade GS-5.

Series	Grade	BMK#
GS-309	05	01

OPM Benchmark Description

CORRESPONDENCE CLERK, GS-5

Incumbent serves in a correspondence unit of a military personnel command activity composing responses to a variety of requests, questions, and complaints related to an individual's military status or record. These typically include correspondence which poses problems such as persons seeking to obtain information, benefits, or other desired action for which they have made previous, unsuccessful, attempts at obtaining.

Duties

—Reads incoming correspondence concerning current and former service members or their dependents on matters such as desired or disputed reassignments, reenlistment eligibility, shipboard conditions, bachelor or family housing eligibility or problems, and hardship discharges.

—Identifies both the basic issues to be addressed and complicating factors (such as charges of rudeness, unresponsiveness, and error) to be considered in any response.

—Searches for and gathers information on the facts and on the regulatory provisions that apply to the specific circumstances discussed in the incoming correspondence. Information is gathered from written sources at hand such as individual service records, prior correspondence on the same subject or pertaining to the same individual, personnel manual and regulations, and through telephone conversations with other persons in the Department. Documents all telephone and face-to-face contacts to substantiate replies composed.

—Composes letters, messages, or telegrams to other military commands, branches of service, or other appropriate sources to request information not found in sources at hand, omitted from the incoming correspondence, or needed to resolve conflicts or inconsistencies in information already gathered.

—Composes detailed explanations in response to correspondence received, arranging information into logical sequence and appropriate format and choosing the appropriate words and expressions to convey the desired tone (such as warmth and concern to the parents of a missing service member). In-

Series	Grade	BMK#
GS-309	05	01

structs typists on matters such as format, addressees, addresses, and necessary number of copies. Assembles final correspondence into a prescribed "package" of letter, attachments, and enclosures in the right number of copies and submits it to the authorized official for signature.

Factor 1, Knowledge Required by the Position—Level 1–3—350 points

—Knowledge of standard rules and requirements for a variety of military personnel management-related topics such as creditable service for the purpose of pay, promotion, transfer to reserve, and retirement; assignment of various types of retirement status; housing and other entitlements of transferred personnel; hardship discharges; and reenlistment eligibility in order to recognize and discount erroneous or false information provided by the correspondent and to discern the correspondent's actual situation, to find the most applicable official guidelines, to develop a useful reply, or to refer the matter to a more appropriate organization for reply or action.

—Knowledge of the internal organization of military service member records and the relationship of their parts in order to search records and extract service information required in developing accurate and adequate written responses to a variety of requests, questions, and complaints, and to recognize errors, inconsistencies, or omissions in service record information.

—Knowledge of the various military services' personnel management-related organizations such as Finance, Reserve, and Records Centers as well as their functions and terminology such as that related to duty status, rank, and pay in order to understand incoming correspondence, to identify and contact likely sources of needed information, and to compose accurate replies.

—Knowledge of the rules of grammar, spelling, and punctuation for composing correspondence and reviewing correspondence composed or typed by others.

Figure A-1. (Continued)

Series	Grade	BMK#
GS-309	05	01

—Knowledge of unit rules and procedures for recording correspondence assignments, for selecting proper correspondence format, releasing service member information, and contacting other offices in the employing organization and other military components.

Factor 2, Supervisory Controls—Level 2-2—125 points

The supervisor makes standing assignments on a variety of designated personnel-related matters such as housing assignments, discharges, and shipboard conditions. The employee judges the sensitivity of the matter and the accuracy of the situation presented and decides how best to respond. The employee independently identifies, gathers, selects, and organizes the appropriate information to compose a reply. Completed replies are evaluated at the time of signing for accuracy, clarity, appropriate tone, and timeliness.

Factor 3, Guidelines—Level 3-2—125 points

Available guidelines include previous replies written on similar but not necessarily identical matters, military personnel regulations, the Enlisted Transfer Manual outlining the various entitlements of enlisted personel upon reassignment, and a listing of key Member of Congress highly interested in the Department's affairs. The employee applies these and other guidelines in light of the particular circumstances presented in or developed on each correspondence problem. Correspondence situations involving factual circumstances that are not covered by available existing guidelines are referred to the supervisor.

Factor 4, Complexity—Level 4-3—150 points

The employee is responsible for composing responses to incoming letters, each of which presents a unique set of circumstances. The employee must compare and reconcile situations presented in the incoming correspondence with available records and must identify the pertinent military personnel-related topic or topics to be addressed before composing a response. Information on these topics is gathered from a variety of documentary and personal sources in a se-

Series	Grade	BMK#
GS-309	05	01

quence that varies with each correspondence matter. The employee must decide, based on the circumstances presented in the correspondence, how extensive the reply should be and which words and phrases to use to convey the appropriate message, both in fact and in tone.

In order to respond to questions or complaints concerning specific cases or situations, the employee identifies the conditions that influenced particular actions or decisions from facts and circumstances described in incoming letters and found in available records. The conditions identified from different sources are reviewed to discern and explain the interrelatedness of varied military personnel rules, practices, and procedures and their application to the correspondent's situation.

Factor 5, Scope and Effect—Level 5–2—75 points

The purpose of the work is to develop timely and accurate replies to current or former service members, their representatives, or their families. The replies developed enable service members or their representatives to take the necessary steps to obtain desired action on supposed entitlements or to consider alternatives where no action or benefits can be expected.

Factor 6, Personal Contacts—Level 6–3—25 points

In addition to contacts with employees in supporting units, the employee has contacts with persons in the same military department, but in another organization, such as those responsible for writing assignment orders for service members or commanding officers of units to which service members who are the subject of correspondence are assigned. There are also contacts with "case workers" employed by Members of Congress.

Factor 7, Purpose of Contacts—Level 7–1—20 points

Contacts are for the purpose of obtaining or providing factual information related to a current or former service member's military status or record.

Figure A-1. (Continued)

Series	Grade	BMK#
GS-309	05	01

Factor 8, Physical Demands—Level 8-1—5 points

The work is done primarily while sitting at a desk. Occasional walking, stooping to open file drawers, and carrying of binders containing manuals and regulations are necessary in the course of the work.

Factor 9, Work Environment—Level 9-1—5 points

The work is performed in an office and involves only the risks, discomforts, and normal precautions associated with such a work setting.

TOTAL POINTS—880

SOURCE: Office of Personnel Management, *Position Classification Standard for Correspondence Clerk, Series GS-309* (October 1981), pp. 24-28.

APPENDIX B. CBO COMPARISONS OF GRADE AND SALARY OF FEDERAL AND PRIVATE-SECTOR WORK FORCES

This appendix provides detail for Chapter II's comparisons of federal and private-sector work forces by grade and salary.

TABLE B-1. DISTRIBUTION, BY GRADE AND SALARY, OF FEDERAL AND PRIVATE-SECTOR WORKERS IN SELECTED PROFESSIONAL AND RELATED SUPPORT OCCUPATIONS, MARCH 1983 (In percents)

	Administration, Purchasing, and Law [a]		Chemistry and Engineering [b]	
	Federal	Private	Federal	Private
Distribution by Grade				
GS Grade				
15	5	[d]	4	[d]
14	6	1	10	2
13	8	2	20	8
11 and 12	27	15	33	37
Under 11	54	82	33	53
Distribution by Salary				
Salary (In dollars)				
53,400 and Over [e]	4	3	6	6
47,400 and Under 53,400	3	1	6	7
41,400 and Under 47,400	6	3	15	12
35,400 and Under 41,400	10	7	20	19
29,400 and Under 35,400	13	13	16	22
23,400 and Under 29,400	12	23	17	23
Under 23,400	52	50	20	11

(continued)

SOURCE: Derived by Congressional Budget Office from data provided by the Office of Personnel Management and the Bureau of Labor Statistics.

a. Covers personnel directors and clerks; accountants, auditors, accounting clerks, buyers, purchasing assistants; and attorneys.

TABLE B-1. (continued)

	Data Processing [c]		Total	
	Federal	Private	Federal	Private
Distribution by Grade				
GS Grade				
15	0	0	4	d
14	0	0	8	2
13	0	0	13	6
11 and 12	42	26	32	31
Under 11	58	74	43	61
Distribution by Salary				
Salary (In dollars)				
53,400 and Over [e]	0	0	5	4
47,400 and Under 53,400	0	d	5	5
41,400 and Under 47,400	1	2	10	9
35,400 and Under 41,400	10	9	15	15
29,400 and Under 35,400	19	19	15	20
23,400 and Under 29,400	22	33	16	25
Under 23,400	49	37	34	22

b. Covers chemists; engineers, engineering technicians, and drafters.

c. Covers computer operators and key-entry personnel.

d. Denotes an amount less than one-half of one percent.

e. Data for this salary range represent the combination of three ranges included in the CBO analysis.

APPENDIX C. THE NAVY PERSONNEL MANAGEMENT DEMONSTRATION PROJECT

The Civil Service Reform Act of 1978 authorized establishment of up to 10 demonstration projects to explore new concepts and approaches to personnel management. The Navy Personnel Management Demonstration Project, the first of these approved by the Office of Personnel Management (OPM), was begun in July 1980 and is under way at four naval research and development laboratories. The changes incorporated in the demonstration project represent a basic alternative to job classification and other personnel management practices under the current General Schedule system. These changes address long-standing complaints regarding the existing system by providing for, among other things, more flexibility in setting pay, simplified classification practices and procedures, and increased first-line management participation in personnel decisions. This appendix describes the demonstration project and presents some preliminary findings.

CHANGES INCORPORATED IN THE DEMONSTRATION PROJECT

Altogether, the Navy's demonstration project involves four naval laboratories and some 10,000 full-time employees--about 2,500 at each site. Employees in a variety of professional, administrative, technical, and clerical occupations are included, although scientists and engineers have the largest representation. 1/ The new personnel system was implemented at two laboratories, referred to here as the demonstration sites--the Naval Weapons Center at China Lake, California, and the Naval Ocean Systems Center at San Diego, California. Two other laboratories, where no changes were implemented, served as controls for purposes of comparison--the Naval Surface Weapons Center at Dahlgren, Virginia, and White Oak, Maryland, and the Naval Air Development Center at Warminster, Pennsylvania. While the project was originally set up to run five years, it has been modified almost annually to accommodate various design and evaluation problems and was recently extended to 1990. The demonstration involves three major changes:

1. Clerical workers are not covered by the experiment at one demonstration site because of statutory limitations on the total number of employees that could participate in the project.

- o A simplified classification system with flexible pay levels encompassing multiple grades,

- o Performance appraisal based on specific objectives, and

- o Pay adjustments tied to performance.

Position Classification. The demonstration project tests a simplified, flexible classification system in which the 18 grades of the General Schedule are collapsed into six broad pay bands, each representing a different level of difficulty. Different sets of pay bands apply to five collections of occupations grouped together on the basis of similarity of work. All professional occupations make up one group, for example, and all clerical occupations are in another. The pay bands applied to each group reflect the range of difficulty of the jobs in the group. An individual's progress up the salary range encompassed by each band reflects performance appraisals, thus enhancing supervisors' abilities to recognize superior performance and promote and retain high quality, experienced employees. In contrast to the current GS system, which is based almost exclusively on job rankings from detailed descriptions of a job, demonstration project managers may set pay within the range stipulated for a job to recognize both employee qualifications and local labor market conditions--thus enhancing recruitment efforts. Under the project, these managers also assign jobs to broad pay bands. Although each laboratory adopted a slightly different format, job descriptions were greatly shortened and standardized.

Performance Appraisal. The objectives-based performance appraisal system established under the demonstration project consists of three phases: development of job performance standards and work objectives related to agency missions, midyear review, and year-end appraisal. As under the government's existing appraisal system, the project encourages employee participation in development of objectives. Unlike that of the government's General Schedule system, however, pay directly reflects the supervisor's appraisal of an employee's progress toward accomplishing objectives.

Performance-Based Pay. In tying annual adjustments in pay to performance, the demonstration project, in effect, extends the concept of the government's merit pay program, which currently covers only certain employees in grades GS 13 through 15, to employees in all grades. 2/ The size of annual pay increases determines the employees' standing within their pay band. Under the demonstration project, pay adjustments in recognition

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2. Because of restraints enacted by the Congress, the courts have enjoined the Administration from implementing rules extending and revising the government's merit pay program.

of performance consist of two parts. The first reflects governmentwide pay increases that are automatically granted most other white-collar workers, usually in October. At the demonstration sites, all or part of such adjustments are granted based on performance. Because each laboratory adjusts the upper and lower bounds of each of its broad pay bands annually in accordance with the full level of annual governmentwide General Schedule pay adjustments, poor performance ratings and limited total pay increases could cause the salaries of some workers to fall into a lower pay band. The second type of adjustment, referred to as an incentive pay increase, substitutes for within-grade increases and incentive awards granted under the General Schedule. The pool of funds for such increases represents what laboratories spent in the past on awards and within-grade adjustments. The share of the pool awarded an employee reflects points earned in annual performance reviews. The method of determining point values varies by laboratory but is determined so that the total dollar value of points awarded will not exceed the amount in the pay pool.

Employees at or near the statutory ceiling on salaries under the General Schedule may receive all or part of either type of adjustment as a cash bonus rather than as a permanent adjustment to pay. This, in effect, circumvents current limitations on executive-level salaries, not unlike lump-sum payments under the Senior Executive Service and potentially as controversial.

PRELIMINARY FINDINGS

Any assessment of the impacts of OPM's demonstration project must be viewed tentatively, given the limitations of data collected to date and the periodic revisions of the project design. Preliminary evaluations by the consulting firm of Coopers and Lybrand and by OPM, however, indicate potentially significant results in three areas:

- Recruitment and retention,
- Administration and management, and
- Cost. 3/

OPM officials indicate that validation of preliminary findings could require at least another three years. In the next few months, OPM may broaden the scope of the demonstration project to other federal agencies.

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3. The impact of the demonstration on cost is discussed in Chapter II.

Recruitment and Retention. Data collected by Coopers and Lybrand suggest that the higher salaries offered under the demonstration project's broad pay bands have enhanced managers' recruitment efforts. 4/ As shown below, acceptance rates of first job offers to entry-level engineers and scientists at the experimental sites rose 21 percent between 1980 and 1981. In contrast, rates at the control site for which data were available decreased by some 20 percent during the same period. Coopers and Lybrand caution, however, that some of the improvement in acceptance rates may reflect a stepped-up recruitment program implemented at one experimental laboratory one year before the demonstration project began.

Jobs Accepted Per 100 First Offers

	Rate in 1980	Rate in 1981 a/	Percent Change
Experimental Sites	23.4	28.2	21
Control Sites b/	25.0	20.0	-20

a. Partial year data.

b. Data not reported for Naval Air Development Center.

Other changes in personnel management at the experimental sites--including increased authority for personnel actions by line management, salary flexibility, and performance-based pay increases--may have contributed to improved retention of skilled workers as well. The figures below show that between 1979 and 1981, turnover at the experimental sites dropped 11 percent compared with a drop of 6 percent at the control sites. Coopers and Lybrand encourages caution in interpreting these data. No information was collected by type of separation, leaving it unclear where change occurred--among those leaving voluntarily for another job, for example, or those retiring. Moreover, the experimental sites entered the experiment with higher separation rates, suggesting there was more room for improvement.

4. Coopers and Lybrand, Evaluation of the Navy Demonstration Project (September 1982); and Office of Personnel Management, Status of Evaluation of the Navy Personnel Management Demonstration Project (March 1984).

Separations Per 100 Employees a/

	Rate in 1979	Rate in 1981	Percent Change
Experimental Sites	10.6	9.4	-11
Control Sites	6.4	6.0	-6

a. Data reported for Naval Weapons Center and Naval Surface Weapons Center.

Administration and Management. Procedural changes embodied in the demonstration project appear to have contributed to better management and administration, based on the perceptions of managers and supervisors. Compared to the control sites, significantly fewer managers report that they feel restricted by unnecessary rules and regulations. Moreover, many of them report greater satisfaction with their ability to hire, promote, and influence pay levels. Finally, the supportive role played by personnel offices under the demonstration project has greatly enhanced their standing with managers. The number of supervisors reporting satisfaction with the way personnel offices helped them perform their jobs increased, whereas the number declined at the control laboratories.